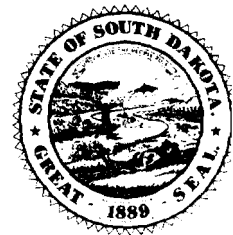




South Dakota Public Utilities Commission

State Capitol Building, 500 East Capitol Avenue, Pierre, South Dakota 57501-5070



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February 19, 1998

FEB 24 1998

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Federal Communications Commission
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Tammi Stangohr
Steven M. Wegman
Rolayne Ailts Wiest

Re: CC Docket No. 96-45

EX PARTE MEETING FEDERAL-STATE JOINT BOARD ON UNIVERSAL
SERVICE - PROXY COST MODELS

Dear Ms. Salas:

Enclosed are an original plus ten copies of the South Dakota Public Utilities Commission's Comments to be filed in the above docket. Please date-stamp one copy and return it in the enclosed, self-addressed stamped envelope.

Sincerely,

William Bullard, Jr.
Executive Director

CGB:cgb
Enclosure
cc: Parties of Record

No. of Copies rec'd
List Attached

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BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION

Washington, D.C. 20554

In the Matter of)	CC Docket No. 96-45
)	
Federal-State Joint Board on)	
Universal Service)	

EX PARTE MEETING - PROXY COSTS MODELS

ALTERNATIVE SUPPORT PROPOSAL

The **South Dakota Public Utilities Commission** ("SDPUC") does not support the alternative distribution proposal for high cost support that was developed by an Ad Hoc Staff Group and was presented to staff members of the Federal Communications Commission ("FCC") on January 15th and 16th 1998. The following is submitted to express and explain SDPUC's concerns:

1. **Use of the embedded costs as a basis for receiving support will not provide support where it is needed most.**

There are two many other factors related to the embedded such as the age of the plant and the rate of depreciation. Using embedded penalizes states with older plant and high depreciation rates.

Compare two states that are fairly comparable in population. When you look at density, Iowa has 50% of its lines in the four lowest density zones while Kansas has 35%. So Iowa is slightly more rural. Using the blended model Iowa would receive \$.63 more per line than Kansas, fairly comparable. Yet on the embedded basis Kansas receives \$2.99 per line support, while Iowa receives \$.21 cents per line.

The Act states that urban and rural areas are to have comparable service and rates. This will not happen if there is no support for upgrading service in rural

areas. By using the older depreciated plant as the basis for support the plan does not provide support to achieve the comparable rates and service required by the Act.

The models are designed to provide support for a set of services that has been defined as universal service. By using the embedded cost, that only include the loop cost, you do not provide sufficient support in the high cost areas to provide those universal services. Those states whose support is calculated using the model are provided support for digital switching and will have the capability to upgrade services to support the required services. A state that is provided support using the embedded cost does not have the cost of the switch considered for support.

If the problem is in the models, then the model should be fixed. The Joint Board is working on this problem and we should give the joint board and the parties the opportunity to correct the models and not substitute an embedded number that puts the issuance of support on a basis that is not comparable among states.

2. State-wide averaging does not provide sufficient support for companies with areas of extreme high cost.

When you use state-wide averaging you are continuing the implicit subsidy of rate averaging.

In states such as South Dakota where you have a large number of small companies, the proposal does not provide sufficient support to the small companies by including them in the state wide average.

We can't assure that the small companies will be held harmless and they will receive the same amount. We have some areas of USW serving area that have just as high cost as the small companies.

Under this proposal, the USW exchanges that have been sold and were not receiving funding before will not receive funds. Some of these exchanges had very old plant and the buyers were depending on universal service funding to assist in upgrading the plant.

3. Implementation

This plan would require the continuation of data collection of ILEC's costs for calculation of support based on embedded costs.

This requirement on the ILECs but not the CLECs would be anticompetitive.

The proposal will require calculating embedded cost and model cost. It would also require the continuation of Part 32 Accounting and Separations. It seems unlikely that in a competitive market that these requirements could be imposed on the ILECs in the future.

One of the reasons models were proposed was so that the funding would be competitively neutral and put CLECs and ILECs on an even basis in calculating support.. Providing support on the basis of embedded costs means CLECs would receive or not receive funds based on the incumbents costs. This is not competitively neutral.

Does not give support equitably.

Providing support calculated on either the model's costs, the embedded costs, or the current support received is not comparable. Support received based upon the model includes support for undepreciated total cost to provide the services defined as universal service. The support received based upon the embedded cost or the current support, receive support for only the depreciated loop cost.

04 states receive support based on the blended models
19 states receive support based on the embedded costs
20 receive support based on the amount received under the current USF
07 states receive no support
22 states receive more support than provided by the current fund.

In many cases **the results don't make sense.**

Under the models Louisiana would receive support of 65 m, under the embedded they would receive 126 m, under the current system they receive 46m. Louisiana's support would be the 65 m calculated by the models.

Iowa would receive 138 m under the models, nothing under the embedded, and 4 m under the hold harmless.

South Dakota would receive 93 m under the models, 4 m under the embedded, and 6 m under the hold harmless.

Why is there so much difference between the support calculated from the blended model, the embedded and what the state currently receives. Especially when you consider that the current cost is calculated on the same embedded cost.

This proposal is detrimental to states with extremely high cost loops, favors states with moderately statewide high cost loops.

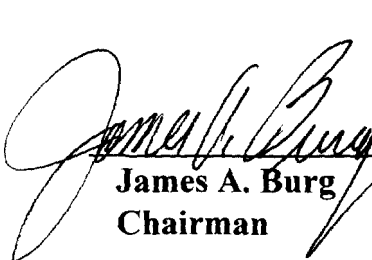
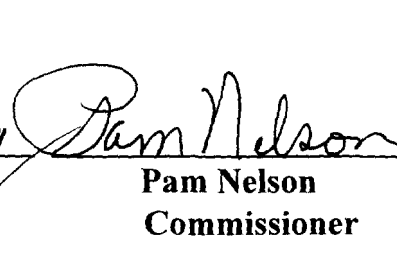

In the paper it says that states with a high proportion of access lines in the rural areas may also have a higher proportion of customers at risk from rate deaveraging. (pg 9, 3rd paragraph) The illustration used is Arkansas, Vermont and Maine. Both South Dakota and North Dakota have a much higher percentage of their lines in the lowest density zones. SD has 13%, and ND 15% while Maine has 2% and Vermont less than 1%. Yet ND's support will increase only \$.46 per line and SD will receive no increase at all. While Maine and Vermont will receive increases of \$3.41 and \$7.11 per line. How are ND and SD, these equally rural states, suppose to support deaveraging.

4. Does not meet the very goals set out in the paper

- a) Regarding **sufficiency** - The plan was designed to achieve a given bottom line and nothing says that using the lower of the embedded cost, the model's cost or the hold harmless is going to meet the sufficiency standard in the Act.
- b) **Competitively neutral** - distributing support on the basis of the incumbents cost is not competitively neutral.
- c) Will not meet the goal of **reasonable comparable rates** within a state or between states. Some states with very high cost areas will not receive sufficient support to maintain comparable rates.

The SDPUC respectfully requests that the FCC consider the positions stated in this filing.

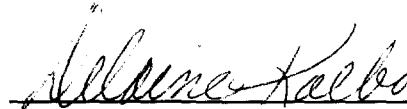
Respectfully submitted by the South Dakota Public Utilities Commission this 19th day of February 1998.

		
James A. Burg Chairman	Pam Nelson Commissioner	Laska Schoenfelder Commissioner

CERTIFICATE OF SERVICE

I hereby certify that copies of the Ex Parte Meeting - Proxy Costs Models Alternative Support Proposal were served on the following by mailing the same to them by United States Post Office First Class Mail, postage thereon prepaid, at the address shown below on the 19th day of February, 1998.

See attached Exhibit A.

A handwritten signature in cursive script, appearing to read "Delaine Kolbo", is written over a horizontal line.

Delaine Kolbo
Legal Secretary
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EXHIBIT A

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